

June 11, 2001

Testimony of Milton J. Bailey, Director, Department Of Housing And Community Development Before the Committee on Economic Development

Good morning, Chairman Brazil, Chairman Evans, and members of the committees. My name is Milton J. Bailey, and I am the Director of the Department of Housing and Community Development. I am joined today by Paul Cohn, Special Assistant at DHCD, Stephen Green, Special Assistant to the Deputy Mayor for Planning and Economic Development, David Clarke, the Acting Director of the Department of Consumer and Regulatory Affairs, and Andrew Altman, Director of the Office of Planning. We are here to discuss Mayor Anthony A. Williams' housing legislative package, the "Housing Preservation, Rehabilitation, and Production Omnibus Amendment Act of 2001."

We have spoken to many of you already about this bill and the other work that the City is doing to increase the supply of affordable housing, and we are heartened to know that this is a priority for this Council as well. Let me open by saying that we look forward to working with you over the next few weeks to craft a bill that meets the housing needs of all the District's citizens.

The Current Landscape

Affordable housing is a priority of this Administration. There is booming investment in Washington, D.C., and people want to move back into the City. We have an opportunity, spearheaded by the announcement of the Downtown Action Agenda, both to strengthen our existing neighborhoods and to create new downtown neighborhoods where people work, live and play. We already have taken important steps, including the issuance of an RFP to develop mixed-income housing on the Wax Museum site at 5th and K Streets, N.W. We anticipate creating 7,600 new housing units downtown, and more units across the City.

Notwithstanding the Administration's success, we know there is more to do for the City's current residents. Some families cannot afford to own an average-priced home in the City; seventy-five percent of our poorest citizens are paying more than 30 percent of their income on housing, and because of the expiration of federal subsidies, the City could lose up to 10,000 more affordable rental units over the next five years. In addition, there are approximately 4,000 abandoned and tax delinquent buildings and lots in the City which create blight and represent wasted resources. Because the City wants to grow by 130,000 in population by 2025, we need to restore each of these vacant buildings to create new housing. My testimony will describe what we are doing to address these problems now, and what the Mayor's legislation will further do. I also will speak to the contributions that Mr. Catania's and Mr. Chavous' bills will make toward meeting the City's housing needs.

Our Record So Far

Mayor Williams is doing more to help low-income families afford housing than any of the surrounding jurisdictions. The District has more than twice its share of the region's affordable rental housing units. In FY 2000, the Department of Housing and Community Development, D.C. Housing Authority, and the D.C. Housing Finance Agency helped to develop and finance more than 5,000 units of affordable housing and helped over 1,200 families become homeowners.

DHCD financed the development, rehabilitation, or conversion to homeownership of 3,531 units serving very-low, low and moderate-income families and helped 672 families become homeowners.

DCHA provides 25,000 very low-income individuals with public housing, and another 25,000 with privately owned subsidized housing. Ninety-five percent of these households are at 30 percent of median income. In addition, the DCHA is using the HOPE VI program to develop an additional 1,600 affordable units over the next several years. Finally, the D.C. Housing Finance Agency invested \$74 million in 1,500 affordable rental units, all of which are affordable to people with incomes below \$50,400, and \$68 million in homeownership for 527 low- and very low-income families.

The City also has several programs targeted to low-income and working families to help them become first-time homebuyers. The District Government provides down payment assistance through the Home Purchase Assistance Program to approximately 400 families a year. Last year, those families' average incomes were under \$33,000, making it truly a low-income homeownership program. DHCD also operates the popular Homestead Program lottery, which we are streamlining to make more efficient. The DC Housing Finance Agency helped another 527 families, mostly current D.C. residents with average incomes of \$47,500, become homeowners through low-interest mortgage loans. The HFA will finance another 700 similar units this year and potentially 3,000 in 2002-2003. The HFA was recently offering mortgage rates as low as 3.75 percent by leveraging HOME funds provided by DHCD. The HFA's new Mobile Home Resource Center will travel to each ward to carry the homeownership message to all people.

We also are promoting rental housing development. The District just received an increase of \$1.3 million in its allocation of 9-percent low-income housing tax credits, and has \$1 million left that is ready for equity investment in affordable rental housing. On the enforcement side, DCRA's Housing Regulation Administration has hired another 16 housing inspectors, with another 10 hires underway. Clearly, the City is working together to build and preserve affordable housing.

The Mayor's Legislation

Still, there is more work to do. An economically healthy city houses people of all incomes. Over the past two decades, the City lost many of its working class families. We have drafted our legislation to put the ball back in the court: to produce more housing and create opportunity for families from the lowest income up to the working class, so that we can house the City's teachers, office workers and police officers. It is this type of strategy that enables cities to grow, to strengthen their tax bases, and create the broad community investment in the health of the city that is vital to continued economic development. With the resources I have just described and the incentives and the new funding I will describe in my testimony, we will be able to do more - not as an either-or situation, but for both low- and moderate-income families and for working class households.

The Mayor's legislation has three goals:

- Protect existing affordable housing and reduce displacement of residents, especially the elderly and long-time residents
- Convert vacant and dilapidated buildings into new housing
- Promote new housing for people of all incomes

Protect existing affordable housing and reduce displacement

To protect existing affordable housing and reduce displacement, the Williams' administration offers three programs.

First, our **"Long-Term, Low-Income Homeowners Protection"** provision is meant to protect low- and fixed-income homeowners who have lived in their homes for more than 10 years. Many of these homeowners are now caught in hot real estate markets where property tax assessments are increasing dramatically. In Columbia Heights, for example, there are families whose property tax bills have increased by 65 percent, from \$800 to \$1,300, in just three years. For a family earning under \$50,000 a year, that is just too much. Mayor Williams wants to cap that family's tax increase at 5 percent - just \$40 in the first year - by letting them take an income tax credit for the rest. This provision will take effect beginning in fiscal year 2003 and will not represent a cost to government operations because it is simply a targeted limit on increased tax revenues. This program is unique among cities because it is a way of combating displacement caused by gentrification and preserving a lower-income families' ability to avoid displacement from their long-time neighborhoods.

Our **"Government-Support Housing Accommodations Conversion"** provision will help the district to protect the supply of affordable rental housing. The potential loss of 10,000 federally-subsidized units will be a disaster for our City. Even though the present tenants are protected as long as they stay in place, once they move from the unit, however, the owner can convert that unit to market rate, and the City loses another affordable apartment. To avoid this, Mayor Williams will require a building owner who is terminating his assistance contract with HUD to notify the City of his or her intention to leave the federal subsidy program. This will enable us to get in front of the situation and work with the tenants and the owners to see whether we can help negotiate the preservation of the long-term affordability of the units.

Our **"Targeted Historic Tax Credit"** provision focuses on the City's distinctive historic housing stock. Much of our housing is in historic neighborhoods that have not yet experienced the investment seen downtown, and it is occupied by low-and fixed-income citizens. We want to bring investment back to these neighborhoods by offering homeowners and homebuyers a 25 percent tax credit against the cost of rehabilitation in the historic neighborhoods east of 14th street and in Mount Pleasant. For example, if a family spends just \$20,000 rehabilitating their home, that family can receive an income tax credit of \$5,000 to offset their costs. The tax credit would be available only to households with incomes of 120 percent of median or less, which is \$100,000 for a family of four.

Now, some have said that this provision is targeted too high - that 120% of median income is too much. I would like to respond to that concern here. We've already seen wealthier families - those at 200 or 300% of median - move into the City's historic neighborhoods and rehabilitate homes. We have set our limit at 120% to help everyone else - the low-income and working class families alike - do the same thing, so there is an income mix in these neighborhoods and so a rehabilitated historic home does not become the province of only the very wealthy. This provision would take effect in Calendar Year 2003 with an annual cap of \$1.25 million, and we anticipate that it will have minimal staffing impacts on the Office of Tax and Revenue.

Convert vacant and dilapidated buildings into new housing

Our second goal, to convert vacant and dilapidated buildings into new housing, is crucial to turning around many of the City's blighted neighborhoods. By reclaiming vacant homes, we revitalize neighborhoods and increase the supply of affordable housing. Building off the strengths of the Homestead Housing Preservation Program and the tools that we have seen in other cities, we propose three provisions:

Our "**Acquisition And Disposal Of Abandoned And Deteriorated Properties**" provision is an amendment of a bill sponsored by Council Member Sharon Ambrose which passed in the last Council session. We share the Ms. Ambrose' and Council's goal of clearing away dilapidated buildings from our City's neighborhoods. Just last month in Ward Seven, for example, Council Member Chavous sponsored a meeting where we heard clearly from the residents that these properties have to go. We propose several modifications so that the law more clearly defines "abandoned" and "deteriorated" properties and that references existing statutes and procedures so that we can move more quickly to take nuisance properties and restore them to productive use.

The "**Modifications to the Homestead Program**" increase the power of the Homestead Program to reclaim and transfer ownership of abandoned and tax-foreclosed properties to homeowners and developers. The bill will allow developers to buy abandoned rental units and restore them for affordable rental housing. It will allow neighborhood groups to come to DHCD with unsolicited proposals for homes that weren't purchased through the lottery; and it will create a repayment fund to recycle Homestead loans so that we can protect the funds that we make available to Homestead buyers for second mortgages. We've since received additional comments on ways to strengthen this title which we will discuss with the Committees as we work through the bill.

I also want to mention that as a separate initiative, we are working with Fannie Mae, Freddie Mac, and the National Association of Home Builders to take the burden of rehabilitating Homestead homes off the backs of the homebuyers. Within a very short period, we will create a pool of contractors to fix up Homestead houses and sell them to buyers in renovated condition, so that the buyers can move into the houses immediately.

This will not result in any new financial burdens to the homebuyers, since they obtain mortgages for the rehabilitations in any event; what it will do is free them from the difficulties of finding and then managing contractors when they have had little experience in doing so. This model has been used successfully in New York City and it should clear up the delays that we have experienced here.

Our "**Due Process Demolition**" title gives the City new power to clear blighted properties that cannot be redeveloped. Under current law, a building has to be an eminent danger before the D.C. Fire Marshal can quickly condemn and demolish it. Under the Mayor's bill, the City will be empowered to demolish a building quickly if we determine it cannot be more efficiently rehabilitated to provide affordable housing, and after giving all interested parties 30 days' initial notice and 10 days' final notice to correct the deficiencies. The costs would be placed as a lien against the property. Again, this is a tool for the City to clear away the dilapidated buildings that are blighting our neighborhoods and to create new opportunities for affordable housing development.

Promote new housing for people of all incomes

Our third goal, to promote housing for people of all incomes, recognizes that a vibrant city is one which is economically mixed. Right now, the market makes it more profitable for developers to build housing for upper income homebuyers and renters. We want to produce more housing in the City, and to broaden our tax base by bringing families back into the City. However, we also want to provide public subsidy so that developers includes housing for low- and moderate-income families in their projects. Our goal is to have the new downtown neighborhoods provide housing opportunities for people of all incomes, so that everybody gets to share in the City's prosperity.

First, we offer a series of **tax abatement** provisions that will provide incentives to private developers to include affordable housing units in their market-rate multifamily housing developments. Under the Administration's separate inclusionary zoning proposal, the City would require developers who receive any public zoning or financial assistance to set aside at least 10 percent of the units as affordable housing for low- and moderate-income households. This bill

augments that proposal by offering three "carrots" to offset the cost of complying with this proposal. Specifically, the City would:

This infusion, combined with this bill's proposals to expand the available products under the Fund, will enable the City to meet the Council's original intent of creating a locally-funded, flexible pool of affordable housing capital that demonstrates this Government's commitment to affordable housing.

We anticipate investing the \$25 million in equal shares between affordable housing production, preservation, and homeownership programs over the next two years, in a way that ensures that at least one-third of the funds goes specifically to low and very low income households. This will bring the City approximately 2,300 units of affordable housing and 350 new homeowners, but will deplete the Fund. Therefore, we seek an additional demonstration of commitment from the Council, to dedicate 15 percent of the real estate transfer tax and deed recordation tax to the Trust Fund so that we annually replenish the fund with \$10-12 million in local monies directed toward meeting our affordable housing needs.

We believe that this bill offers the right mix of incentives and assistance which, coupled with the existing programs of this Administration and its partners, can fully meet the broad range of affordable housing needs that face very low-, low-, moderate-income, and working families. Our proposals will bring economic balance to our City, provide new resources and incentives for housing that is affordable to low- and moderate-income households, and increase the supply of housing for all the income groups that need help to stay in or move back into the City.

Council Members' bills

Finally, I want to say a few words about Council Members Catania's and Chavous' bills.

In general, the Administration supports the goals of Bill 14-183; indeed the Administration addresses many of the same issues in the Mayor's Omnibus Housing Bill. Overall, however, we are concerned that this bill does not direct District revenues to the people and neighborhoods that need assistance most. For example, the tax credit for employers who help employees purchase homes is not income limited or targeted at specific neighborhoods. In addition, the bill requires the use of already committed funds FY 2002 funds to pay for the tax subsidies. The fiscal impact of this bill should be carefully assessed. We would be pleased to offer more specific recommendations on the individual provisions at the Council's request.

With regard to Bill 14-177, we would like to see how its provisions can be aligned with those of the Homestead Program, so that we have a single, effective mechanism for getting tax-delinquent single-family homes into the hands of new homebuyers. We know the Council has examined this issue from a number of perspectives and we have included provisions in the Administration's bill to increase Homestead's capacities. We look forward to working with you to further this goal as well.

This concludes my testimony. My colleagues and I would be pleased to answer any questions you have at this time.